

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF**

**For The Year Ended
December 31, 2007**

Romaine
and
Associates P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF**

**For The Year Ended
December 31, 2007**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GRAVES COUNTY SHERIFF

**For The Year Ended
December 31, 2007**

Romaine & Associates, PLLC has completed the Graves County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$4,526 from the prior year, resulting in excess fees of \$58,730 as of December 31, 2007. Revenues decreased by \$236,166 from the prior year and expenditures decreased by \$231,640. As of the audit date, the Sheriff still owed excess fees of \$6,750 for 2007.

Debt Obligations:

Total debt principal as of December 31, 2007, was \$167,352. Future collections of \$180,579 are needed over the next three years to pay all debt principal and interest.

Report Comments:

- The Sheriff Should Maintain Complete and Accurate Accounting Records
- The Sheriff's Office Lacks Adequate Segregation of Duties
- The Sheriff Should Have Deposited Receipts On A Daily Basis

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	9
COMMENTS AND RECOMMENDATIONS	12

Krista Romaine, CPA, Member
Charlotte Clark, Member

Romaine *and* Associates PLLC

William Erwin, CPA
Van R. Prince, CPA

CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Graves County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Maintain Complete and Accurate Accounting Records
- The Sheriff's Office Lacks Adequate Segregation of Duties
- The Sheriff Should Have Deposited Receipts On A Daily Basis

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Graves County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Romaine & Associates, PLLC
Certified Public Accountants

March 11, 2009

GRAVES COUNTY
JOHN DAVIS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

Federal Grants		\$	49,425
State Grants			
Kentucky Law Enforcement Foundation Program Fund	\$	32,411	
Traffic Alcohol Prevention		3,515	
Law Enforcement Service Fee		2,930	\$ 38,856
State Fees For Services:			
Finance and Administration Cabinet	\$	56,826	
Cabinet For Health and Family Services		15,036	
Sheriff Security Service		41,168	113,030
Circuit Court Clerk:			
Fines and Fees Collected			14,690
Fiscal Court			148,314
County Clerk - Delinquent Taxes			5,051
Commission On Taxes Collected			367,680
Fees Collected For Services:			
Auto Inspections	\$	18,920	
Accident and Police Reports		3,803	
Serving Papers		64,310	
Carrying Concealed Deadly Weapon Permits		3,920	90,953
Other:			
Returned Check Fee	\$	325	
Extra Security		3,225	
Disability Reimbursement		5,779	
Execution Order		669	
Telecommunications Tax		2,592	
Sheriff Election Duties		600	
Restitution		1,346	
Reimbursement for Jury Meals		202	
Miscellaneous		85	
Auction Sales		1,500	
Penalty Fees		40,739	
2nd Notice Fees		3,612	
Insurance Claim Payment		1,405	62,079

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN DAVIS, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Revenues- (Continued)

Interest Earned		\$	2,971
Borrowed Money:			
State Advancement	\$	160,000	
Bank Note		23,500	183,500
Total Revenues		\$	1,076,549

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	406,287
Part-Time Salaries		84,098
Other Salaries		25,765
Training Fringe Benefit (HB810)		2,363
Employee Benefits		39,927

Contracted Services-

Vehicle Maintenance and Repairs		10,621
Computer Services		1,485

Materials and Supplies-

Office Materials and Supplies		10,766
Uniforms		195

Auto Expense-

Gasoline		52,689
Maintenance and Repairs		24,532
Vehicle Insurance		51

Other Charges-

Property Tax		339
Conventions and Travel		2,509
Dues		904
Postage		10,655
Jury Meals		202
Bond		634
Transport Prisoners		10,258
Internet Service		299
Returned Check		5
K-9 Expense		1,950
Notary Service Fees		82
Refunds		159
Judgement Payments		669
Equipment		1,060
Miscellaneous		857

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN DAVIS, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures (Continued)

Debt Service:

State Advancement	160,000
Notes	74,301
Interest	9,493

Total Allowable Expenditures	\$ 933,155
Net Revenues	\$ 143,394
Less: Statutory Maximum	81,277
Excess Fees	\$ 62,117
Less: Training Incentive Benefit	3,387
Excess Fees Due County for 2007	58,730
Payment to Fiscal Court - February 11, 2008	\$ 51,980
Balance Due Fiscal Court at Completion of Audit	\$ 6,750

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

GRAVES COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2007
 (Continued)

Note 4. Note Payable

The office of the Sheriff is liable for a secured note payable to First National Bank in the amount of \$167,352. The purpose of the note was to refinance a bank note from the 2006 year and also to purchase new police vehicles for the 2006 year. The note matures in three years and the interest rate is 5.00 percent. The office of the Sheriff was in compliance with the terms of the agreement as of December 31, 2007.

Year Ending	Interest	Principal
2008	\$ 7,182	\$ 53,045
2009	4,448	55,728
2010	1,597	58,579
	<u>\$ 13,227</u>	<u>\$ 167,352</u>

Note 5. Grants

During calendar year 2007, the Graves County Sheriff's Office participated in state grant programs of which the activity was accounted for in the Fee Account. The Sheriff's Office was in compliance with all related regulations and grant agreements as of December 31, 2007.

Note 6. Special Fund

The Graves County Sheriff maintains a separate account mainly for drug related activities and some miscellaneous activities. The beginning balance of this account was \$50,800. During calendar year 2007 receipts were \$17,026 and expenditures were \$62,894 leaving an ending balance of \$4,932 as of December 31, 2007.

Note 7. Forfeiture Fund

The Office of the Graves County Sheriff has a forfeiture fund established by an order of the Circuit Court. Receipts result from the forfeiture of money, forfeiture of property, and court ordered payments from individuals. The funds are spent for supplies, equipment, vehicles, and drug awareness programs. The Forfeiture fund was established during 2006. The beginning balance of this account was \$10,204. During calendar year 2007 receipts were \$18,555 and expenditures were \$12,236. The balance at December 31, 2007 of the Drug Enforcement Fund was \$16,523.

Note 8. Payroll Withholding Fund

The Office of the Graves County Sheriff has a payroll withholding fund established January 5, 2006. Receipts result from payroll withholding from employees. The funds are spent for payroll taxes, Christmas Club, flowers, and miscellaneous items. The beginning balance of this account was \$3,148. During the year 2007 receipts were \$143,145 and expenditures were \$144,454. The balance at December 31, 2007 of the Payroll Withholding Fund was \$1,839.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Graves County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated March 11, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Graves County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Graves County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation of Duties
- The Sheriff Should Have Deposited Receipts On A Daily Basis
- The Sheriff Should Maintain Complete and Accurate Accounting Records

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency as described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance on other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Maintain Complete and Accurate Accounting Records
- The Sheriff Should Have Deposited Receipts On A Daily Basis

This report is intended solely for the information and use of management, the Graves County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Romaine & Associates, PLLC

March 11, 2009

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Maintain Complete and Accurate Accounting Records

KRS 68.210 and KRS 134.160 require the Sheriff to maintain complete and accurate accounting records. Additionally, best practices for good internal controls required maintenance of complete and accurate accounting records. We noted several deficiencies in the Sheriff's accounting records. We recommend that the Sheriff establish and maintain proper accounting records as required by KRS 68.210 and KRS 134.160 and good internal controls by implementing the following procedures:

- Ledgers should be maintained/updated on all accounts until such accounts are closed-out.
- Any fee monies received after the close of the year should be deposited to the fee account it pertains to unless that year has been closed. These funds will be deposited into the current year fee account.
- The Quarterly Report (front page) should include a reconciliation for all accounts of the Sheriff's office for the entire year.
- Budget Amendments should be submitted and approved by the fiscal court for any unexpected receipts and/or expenditures.
- Receipts and expenditures ledgers should be reconciled to the Quarterly Report.
- Bookkeeper should reconcile accounts receivables to the ledgers monthly.

Sheriff's Response: Procedures in place to correct these.

The Sheriff Should Have Deposited Receipts On A Daily Basis

KRS 68.210 gives the State Local Finance Officer the authority to establish minimum accounting requirements, which includes depositing receipts intact on a daily basis into a federally insured banking institution. Additionally, sound internal control practices dictate the intact deposit of receipts on a daily basis. The Sheriff did not make deposits of more than \$200 in a timely manner; deposits were made on a weekly basis. We recommend that funds should be deposited on daily basis in order to comply with state regulations and to maintain sound internal controls.

Sheriff's Response: Will attempt to comply.

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2007
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily check out sheet, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: Ongoing attempts in correcting this problem.

The Sheriff Should Have Deposited Receipts On A Daily Basis

KRS 68.210 gives the State Local Finance Officer the authority to establish minimum accounting requirements, which includes depositing receipts intact on a daily basis into a federally insured banking institution. Additionally, sound internal control practices dictate the intact deposit of receipts on a daily basis. The Sheriff did not make deposits of more than \$200 in a timely manner; deposits were made on a weekly basis. We recommend that funds should be deposited on daily basis in order to comply with state regulations and to maintain sound internal controls.

Sheriff's Response: Will attempt to comply.

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2007
(Continued)

The Sheriff Should Maintain Complete and Accurate Accounting Records

KRS 68.210 and KRS 134.160 require the Sheriff to maintain complete and accurate accounting records. Additionally, best practices for good internal controls required maintenance of complete and accurate accounting records. We noted several deficiencies in the Sheriff's accounting records. We recommend that the Sheriff establish and maintain proper accounting records as required by KRS 68.210 and KRS 134.160 and good internal controls by implementing the following procedures:

- Ledgers should be maintained/updated on all accounts until such accounts are closed-out.
- Any fee monies received after the close of the year should be deposited to the fee account it pertains to unless that year has been closed. These funds will be deposited into the current year fee account.
- The Quarterly Report (front page) should include a reconciliation for all accounts of the Sheriff's office for the entire year.
- Budget Amendments should be submitted and approved by the fiscal court for any unexpected receipts and/or expenditures.
- Receipts and expenditures ledgers should be reconciled to the Quarterly Report.
- Bookkeeper should reconcile accounts receivables to the ledgers monthly.

Sheriff's Response: Procedures in place to correct these.